

Direct Loans

William D. Ford Federal Direct Loan Program

William D. Ford Federal Direct Loan Program Federal Direct PLUS Loans (For Parent Borrowers) Borrower's Rights and Responsibilities

The William D. Ford Federal Direct Loan (Direct Loan) Program includes the following loans:

- Federal Direct Stafford/Ford Loans (Direct Subsidized Loans),
- Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans),
- Federal Direct PLUS Loans (Direct PLUS Loans), and
- Federal Direct Consolidation Loans (Direct Consolidation Loans).

The Direct Loan Program is authorized by Title IV, Part D, of the Higher Education Act of 1965, as amended (the Act).

Direct PLUS Loans are specifically for parent borrowers. Direct PLUS Loans are to be used by a natural or adoptive parent or stepparent of a dependent student to meet that student's educational expenses. Under certain circumstances, a Direct PLUS Loan borrower may be required to have an endorser on the loan before the loan is made. An endorser is responsible for repaying the loan if the borrower does not.

A Direct PLUS Loan is made by the United States Government and is administered by the U.S. Department of Education (ED). ED's Direct Loan Servicing Center will manage, answer questions about, and collect the loan. The Direct PLUS Loan borrower will be provided with the address and telephone number of the Direct Loan Servicing Center.

1. Maximum Loan Amounts. Under the Direct PLUS Loan Program, I may borrow up to—but no more than—the dollar amount of my dependent student's estimated cost of attendance (COA) minus the amount of any estimated financial assistance to the student for the specified period of enrollment. The COA is an amount the school establishes using prescribed federal guidelines.

I am allowed to apply for a loan amount that is less than the maximum Direct PLUS Loan amount I am eligible to borrow. I may cancel or reduce the size of my loan by refusing to accept a loan disbursement that is issued to me.

2. Loan Money. The loan money I receive must be used only for my dependent student's authorized educational expenses to attend the school that awarded the loan for the time period specified on the loan application. Authorized expenses include—

- Tuition,
- Room,
- Board,
- Institutional fees,
- Books,
- Supplies,
- Equipment,
- Student's dependent child care,
- Transportation,
- Commuting expenses,
- Rental or purchase of a personal computer,
- Loan fees, and/or
- Other documented, authorized costs.

Generally, the loan money will be disbursed in multiple payments, based on the academic terms at the student's school. If the school does not use academic terms, disbursements will generally be made at least twice, once at the beginning and once at the midpoint of the student's enrollment period.

When I sign the promissory note, I am also giving my written approval to allow the school to directly apply the loan money to the student's account at the school. The Direct Loan Servicing Center will notify me in writing of each loan disbursement reported by the school.

3. Change of Status. I must notify the Direct Loan Servicing Center and the financial aid office at the student's school about certain changes.

I must notify the school's financial aid office and the Direct Loan Servicing Center if any of the following events take place:

- I change my address or telephone number,
- I change my name,
- The student fails to enroll—
 - at least half time for the loan period certified, or
 - at the school that awarded my loan,
- The student withdraws from school or reduces enrollment to less than half time,
- The student transfers from one school to another, and/or
- The student graduates.

I must notify the Direct Loan Servicing Center if any of the following events take place:

- I change my employer, or my employer's address or telephone number changes, and/or
- I have any other change in status that would affect my loan (for example, losing eligibility for an unemployment deferment by obtaining a job).

4. Cost of Borrowing and Effect on Eligibility for Other Student Aid. All of my loans must be repaid. A Direct PLUS Loan must be repaid along with interest that will be charged during the life of the loan. I will be charged a fee for my Direct PLUS Loan, which is 4 percent of the loan principal. This amount will be deducted proportionately from each disbursement.

I also understand that my receipt of this loan may affect my dependent student's eligibility for other aid. Because of these factors, before I apply for a Direct PLUS Loan, it may be beneficial to determine whether the student is eligible for grants, work-study funds, and other forms of private and federal student aid that do not require repayment.

5. Interest Rate. It is my responsibility to pay interest on my loan. The interest rate on my Direct PLUS Loan will be a variable rate, adjusted once a year on July 1, and will not exceed 9 percent.

For Direct PLUS Loans first disbursed on or after July 1, 1998, the applicable rate of interest for any 12-month period beginning on July 1 and ending on June 30, will be determined on the preceding June 1 and will be equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1; plus 3.1 percentage points, but shall not exceed 9 percent.

The actual interest rate that applies to my loan will be included in a letter that I will receive from the Direct Loan Servicing Center after the first disbursement of the loan. After reviewing the actual interest rate, I may cancel or reduce this loan in accordance with Section 7.

6. Interest Charges. ED will charge interest on my Direct PLUS Loan during authorized deferment and forbearance periods. (See paragraph 14 entitled "Forbearance.")

I must pay the accruing interest during an authorized period of deferment or forbearance or capitalize the accruing interest by having it added to the loan principal, as provided under the Act. If I choose to capitalize accrued interest, the total cost of my loan will increase.

The Taxpayer Relief Act of 1997 may allow me to claim a federal income tax deduction for interest payments I make on Direct Loans for the first 60 months (whether consecutive or not) that such loans are in repayment.

The deduction applies to interest payments I make on or after January 1, 1998. For further information, I may refer to the IRS Publication 970, which is available at <http://www.irs.ustreas.gov>.

7. Loan Cancellation. If the school credits my loan to the student's account, I may cancel all or a portion of my loan by informing the school within 14 days after the date the school sends me a disbursement notice, or by the first day of the payment period, whichever is later. (The school can tell you the first day of your payment period). If I cancel all or a portion of my loan as provided for in this paragraph, the school must return to ED all or a portion of the loan proceeds credited to the student's account and the loan fee will be reduced or eliminated, in proportion to the amount of the disbursement returned.

At any time within 120 days of disbursement, I may pay back all or a portion of my loan. The loan fee will be reduced or eliminated in proportion to the amount of the disbursement returned.

8. Repayment. My first payment will be due within 60 days of the final disbursement of my Direct PLUS Loan unless I am eligible for a deferment.

There are several repayment plans from which I can select to repay my Direct PLUS Loan.

I will be given the opportunity to choose one of the following loan repayment plans.

NOTE: For the following repayment plans, the time limits shown do not include periods of deferment and forbearance.

■ **Standard Repayment Plan**—If I choose this plan, I will make fixed monthly payments and repay my loan in full within 10 years from the date the loan entered repayment. Payments must be at least \$50 a month and will be more, if necessary, to repay the loan within the required time period. The number or amount of the payments may need to be adjusted to reflect changes in the variable interest rate.

■ **Extended Repayment Plan**—If I choose this plan, I will make fixed monthly payments and repay my loan in full within 12 to 30 years, depending on the total amount of my loan. Payments must be at least \$50 a month and will be more, if necessary, to repay the loan within the required time period. The number or amount of the payments may need to be adjusted to reflect changes in the variable interest rate.

■ **Graduated Repayment Plan**—If I choose this plan, my payments will be lower at first and will increase every two years. I will repay my loan within 12 to

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30 years, depending on the total amount of the loan. Payments must cover interest charges and can never be less than 50 percent or more than 150 percent of the amount that would be paid under the Standard Repayment Plan. The number or amount of the payments may need to be adjusted to reflect changes in the variable interest rate.

If I do not choose one of the plans, ED will choose a plan for me in accordance with ED's regulations. However, if I demonstrate to ED's satisfaction that the terms and conditions of the three repayment plans are not adequate to accommodate my exceptional circumstances, ED may provide an alternative repayment plan.

I understand that there will be no penalty for prepaying any portion of my loan.

All payments and prepayments are applied in the following order: charges and collection costs first, outstanding interest second, and outstanding principal last.

A Direct Consolidation Loan Program is available under which I (or my spouse and I jointly) may consolidate one or more federal education loans into one loan. I can apply for a Direct Consolidation Loan through the Direct Loan Servicing Center. If my Direct Consolidation Loan is approved, ED will send me a single repayment schedule that details my scheduled payment amounts and due dates. My repayment schedule will require only a single monthly repayment.

If I fail to make any part of an installment payment within 30 days after it becomes due, I may owe a late charge. This charge may not exceed six cents for each dollar of each late installment.

9. Misuse of Loan Money. Misusing money from my Direct PLUS Loan is grounds for ED to accelerate loan repayment, making the entire unpaid balance immediately due and payable. This may happen if—

- The student for whom the loan is borrowed fails to enroll at least half time at the school specified on the loan application,
- The loan money is used for expenses unrelated to the student's education,
- I make a false statement on my loan application that results in my receiving a loan for which I am not eligible, and/or
- I default on the loan.

10. Consequences of Default. Default (failing to repay my Direct PLUS Loan) is defined in the disclosure of terms in my promissory note. If I default, the entire unpaid balance and collection fees will become due and payable immediately. Failure to repay this or any federal student loan may result in any or all of the following:

- Loss of federal income tax refunds,
- Legal action against me,
- Collection charges (including attorney fees) being assessed against me,
- Loss of eligibility for other federal student aid and assistance under most federal benefit programs,
- Loss of eligibility for loan deferments,
- Negative credit reports to credit bureaus, and/or
- My employer withholding part of my wages to give them to ED (administrative wage garnishment).

11. Credit Bureau Notification. Information concerning the amount, disbursement, and repayment status (current or delinquent) of loans will be reported to one or more national credit bureau organizations. The endorser of a delinquent Direct PLUS Loan may be reported to credit bureaus.

If I default on my loan, this will also be reported to national credit bureaus. I will be notified at least 30 days in advance that default information is to be disclosed to a credit bureau unless I enter repayment on the loan within 30 days. I will be given a chance to ask for a review of the debt before it is reported. ED must provide a timely response to a request from any credit organization regarding objections I might raise with that organization about the accuracy and completeness of any information ED has reported.

12. Discharge. My loan will be discharged if documentation of my death or the death of the student for whom this loan is borrowed is submitted to the Direct Loan Servicing Center or if I am eligible under the regulations governing a discharge due to a permanent and total disability. To apply for a loan discharge due to permanent and total disability, I must submit a discharge application to the Direct Loan Servicing Center. The application documentation must be certified by a doctor. ED will not approve a request for cancellation for permanent and total disability for a condition that existed before I applied for this loan unless a doctor certifies that the condition substantially deteriorated after the loan was made.

All or a portion of my loan debt may be cancelled if the student for whom I borrowed the loan is unable to complete a course of study because the school closes or because the school falsely certified the student's eligibility. The Act also provides for loan discharge in the amount of any required refund that the school failed to make. ED does not vouch for the quality or suitability of academic programs offered by schools participating in any federal student financial aid program. Repaying loans is not conditional on the performance of the school the student attends, or on the student obtaining employment in his or her field of study.

In addition, I may assert, in certain proceedings before ED, that I have a defense against repayment of a Direct Loan. ED may recognize as a defense against repayment an act or omission by the school that I am attending that would give rise to a legal cause of action against the school under applicable state law as long as that act or omission directly relates to this loan or to the school's provision of educational services for which this loan is provided.

My loan debt will not automatically be discharged in bankruptcy. In order to discharge a loan in bankruptcy, I must prove undue hardship in an adversary proceeding before the bankruptcy court.

13. Deferment. Under certain circumstances, I am entitled to postpone repayment. Upon request, the Direct Loan Servicing Center will provide me with a deferment application that explains eligibility requirements. If I am in default on my Direct PLUS Loan, I am not eligible for a deferment.

Note: A Direct PLUS Loan endorser is not eligible for a deferment.

The maximum periods authorized for deferment on Direct PLUS Loans are determined by the Act. Deferments are available while I am:

- Enrolled at least half time at an eligible school,
- Engaged in a full-time course of study in a graduate fellowship program,
- Engaged in a full-time rehabilitation training program for individuals with disabilities (if the program is approved by ED),
- Conscientiously seeking, but unable to find

full-time employment (for up to three years), or

- Experiencing an economic hardship as defined by federal law (for up to three years).

The Direct Loan Servicing Center will process an in-school deferment based on (i) my request along with documentation verifying my eligibility, or (ii) the Direct Loan Servicing Center's receipt of information from my school about my eligibility in connection with a new loan, or (iii) the Direct Loan Servicing Center's receipt of student status information indicating that I am enrolled on at least a half-time basis.

In all other cases, I must provide the Direct Loan Servicing Center with a deferment request and evidence that verifies my eligibility.

If at the time I applied for this loan, I have an outstanding balance on a Federal Family Education Loan (FFEL) Program loan (formerly known as a GSL) that was made prior to July 1, 1993, additional deferments may be available. These include deferments while I am:

- Temporarily totally disabled (for up to three years), or
- Unable to secure employment because I am required to care for a spouse or dependent who is disabled (for up to three years).

I may also be eligible for deferments while the student for whom I borrowed a Direct PLUS loan is dependent and:

- Enrolled at least half time at an eligible school,
- Engaged in a full-time graduate fellowship program, or
- Engaged in a full-time rehabilitation program for individuals with disabilities (if the program is approved by ED).

The Direct Loan Servicing Center can provide additional information about deferment eligibility.

14. Forbearance. If I am unable to make my scheduled loan payments, ED may allow me to reduce my payment amount, to extend the time for making payment, or to temporarily stop making payments as long as I intend to repay my loan. Allowing me to temporarily delay or reduce loan payments is called forbearance.

If I am willing, but financially unable, to make payments under my repayment schedule, forbearance may be granted for circumstances such as:

- Financial hardship,
- Illness,
- Service in a medical or dental internship or residency program, if I meet specific criteria, or
- Periods of time when my monthly debt burden for all federal Title IV student loans equals or exceeds 20 percent of my total monthly gross income.

ED may grant me a forbearance for up to 60 days in order to collect and process documentation supporting my request for a deferment, forbearance, change in repayment plan, or consolidation.

ED may grant me forbearance to eliminate a delinquency that persists even though I am making scheduled installment payments.

I may contact the Direct Loan Servicing Center for information on how to apply and qualify for forbearance.